

What the Ratings Agencies Say About Illinois:

Standard and Poor's (A+ rating/Negative Outlook)

- Large unfunded actuarial accrued liability (UAAL) for its five pensions that stood at \$82.9 billion (43.4% funded) at fiscal year-end 2011, coupled with a large \$28.6 billion (UAAL) for its other postemployment benefits. (Pg. 2-Illinois General Obligation Analysis-03/12/12)
- If Illinois does not implement meaningful changes to further align revenue and spending and address its accumulated deficit (accounts payable and general fund liabilities) for fiscal 2012, we could lower the rating this year. The outlook also reflects what we consider ongoing weakness in the state's pension funds and lack of action to meaningfully address the liability. A downgrade could also be triggered if pension funding levels continue to deteriorate and there is not credible program in addressing the liability. In addition, we could lower the rating by more than one notch if the state makes no progress on structural budget solutions and does not address the significant pension liabilities and associated cost pressure. (Pg. 3, Illinois General Obligation Analysis-03/12/12)
- Funding levels for all five plans have been what we consider low for a number of years, and have declined steadily from their peak funding level of 75% in 2000, despite the deposit of \$7.3 billion in pension bonds issued in 2003. In addition to sizable debt service requirements associated with pension-related debt (about \$2.3 billion for the series 2003, 2010 and 2011 bonds), Illinois will face increased pension contributions due to growing liabilities. Contributions have been in increasing strain on budget, in our opinion, and the state has consistently funded below the actuarially required contribution (ARC). (Pgs. 7-8, Illinois General Obligation Analysis-03/12/12)

Moody's (A2 rating/Stable Outlook)

- Contribution shortfalls have been the main cause of deteriorating funded status since 1996. In fiscal 2011, for example, the state contributed almost \$4.3 billion to its pensions. While this amount satisfied Illinois' statutory contribution requirement, it was only 73% of the annual required contribution (ARC) – the actuarially determined amount to provide both for current-year accrued benefits and for UAAL amortization. (4/17/12 Report)
- Addressing the pension payment and backlog challenges, however, would require significant political will to impose durable policies to combat conditions that have persisted and worsened over many years. Solutions to these problems cannot be reached easily and may remain elusive in the current legislative session. Any pension changes may face large legal hurdles. (4/17/12 Report)

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Fitch (A rating/Stable Outlook)

- The 'A' rating reflects the challenges faced by the state of Illinois in achieving budget balance despite the significant revenue raising action taken last year to realign its financial operations as well as sizeable unfunded pension liabilities that are placing increasing pressure on the state's operations. (Rating Report- 4/19/12)
- However, large challenges remain, including addressing increasing spending demands in the general fund from Medicaid and rising pension costs, enacting a plan to reduce the outstanding accounts payable balance, and maintaining budgetary balance in light of the temporary nature of the tax increases. (Rating Report- 4/19/12)
- Other long-term liabilities, particularly pension liabilities, are very high for a U.S. state, and Illinois faces continued significant growth in funding requirements to address the pension systems large unfunded liabilities. (Rating Report- 4/19/12)
- The state's combined debt and pensions liabilities as a percent of 2011 personal income is second highest among the states at 25%, well above the state median of 6.9%. (Rating Report- 4/19/12)